Annual report 2004

For the year ended January 31, 2004

Strategic Growth

Magasins Hart Stores Inc.

Company **Profile**

Consistent Growth

Hart Stores Inc. is a mid-sized department store chain with 63 locations throughout Quebec, Atlantic Canada and recently expanded in the Ontario market. The Company operates under the Hart, Bargain Giant and Géant des Aubaines banners, with stores occupying a dominant presence in secondary and tertiary markets. Product mix includes national and exclusive brands in home furnishings, furniture, housewares, appliances, home electronics, giftware, toys, bed & bath, furniture, family fashion apparel and footwear as well as seasonal categories.

Stores are strategically located in prime malls serving small towns and select suburban communities. Locations, size of stores and merchandise selection remain a core competitive advantage.

Hart Stores Inc. common shares are traded on the Toronto Stock Exchange (TSX) under the stock trading symbol HIS. The Company is headquartered in an 85,000 square foot office and distribution centre in Montreal's Anjou district. The complex houses buying and administration, advertising, accounting, warehousing and distribution functions under one roof.

Hart Stores Inc. was recently selected as one of the "TOP 30" publicly traded companies in Quebec, as selected by the National Bank Financial set of criterias for growth companies.

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Financial **Highlights**

(In thousands of dollars, except per share amounts)

Financial Years	**2004**	2003	2002	2001 (53 weeks)	2000
OPERATIONS					
Revenues	**$ 127,829**	$ 118,689	$ 111,489	$ 109,245	$ 105,527
Cash flow from operations	**5,415**	5,705	5,838	2,355	1,189
Operating income (1)	**9,609**	8,316	7,123	4,034	2,113
Net earnings (loss)	**5,539**	4,606	3,260	874	(491)
Operating income % to revenues	**7.5%**	7.0%	6.4%	3.7%	2.0%
Net earnings (loss) % to revenues	**4.3%**	3.9%	2.9%	0.8%	(0.5%)
FINANCIAL STRUCTURE					
Total assets	**$ 45,601**	$ 41,628	$ 37,058	$ 38,122	$ 39,738
Working capital	**30,149**	25,383	20,536	16,022	19,628
Net funded debt	**-**	-	3,044	9,309	11,424
Shareholders' equity	**34,255**	29,275	24,623	21,358	20,524
PER SHARE AMOUNTS					
Earnings (loss) per share:					
Basic	**$ 0.42**	$ 0.35	$ 0.25	$ 0.07	$ (0.04)
Diluted	**0.41**	0.34	0.25	0.07	(0.04)
Book value per share	**2.60**	2.23	1.90	1.65	1.58
Weighted average number of shares	**13,167,597**	13,099,843	12,983,411	12,976,864	12,968,536

(1) Earnings before interest, depreciation, amortization and income taxes.

REVENUES
(in thousands of dollars)

OPERATING INCOME (1)
(in thousands of dollars)

NET EARNINGS (LOSS)
(in thousands of dollars)

President's Message

"Maintaining a Competitive Edge and Sustainable Growth"

"We continued to deliver sustainable growth, improved earnings and increased shareholders' equity"

The solid performance attained this year is attributable to the underlying strength of our commitment to reinforce our position with a consistent strategy for sustained and calculated growth. We have maintained our focus on implementing strategic programs and expanding our market reach. We have continued to differentiate ourselves in the markets we serve by offering a superior level of service and a distinct product mix.

Our locations, size of stores and merchandise selection remain a core competitive advantage for us.

Financial Review

Net earnings for the fiscal year 2004 reached $5.5 million, a 20.3 percent increase compared to fiscal 2003.

During the past year, the Company recorded its 17th consecutive quarter of year-over-year earnings growth. Earnings per share rose to $0.42, or 20.3 percent increase compared to the preceding year. Revenue reached $127.8 million in 2004, representing a growth rate of 7.7 percent.

These results were achieved within a challenging retail environment, which saw heightened competition in many markets.

We will continue to strengthen our position by enhancing the overall shopping experience and providing our customer with tangible value.

7.7 % sales growth

17 consecutive quarters of net earnings improvement

20.3 % increase in net earnings

24.7 % return on shareholder's equity

In Touch with our Customers

Our customers want innovative styles, affordable price points. They want excellent value and service in an ever-changing retail environment.

This year, we introduced new products and expanded our existing product lines. The resulting growth in home furnishing and seasonal product categories has allowed us to expand our opportunities in the developing home & garden niche. We continue to drive new business to our stores and not only maintain but improve our position in the ever-changing market place. Our strong fashion sense in the family apparel and footwear categories will allow us to further develop and expand our business in these departments as we go forward.

OUTLOOK
Strategic Growth

Our carefully planned expansion program has served our growth strategy well. In the past two years, we have successfully opened 8 additional stores. We will continue to seek locations that give us a dominant position in secondary and tertiary markets.

FUTURE
Building on Strength

Looking forward, we see potential for continued steady earnings growth despite the highly competitive retail environment we operate in. We will respond to short-term challenges while remaining focused on pursuing our long-term vision. Our commitment to customer satisfaction, coupled with our emphasis on maintaining and solidifying our market position remains a strong management philosophy.

We are confident that our business is well positioned with the right strategies for consistent and sustainable growth.

On behalf of management, I would like to thank the Board of Directors for their support and our dedicated team of associates for their diligent efforts and commitment to excellence, and, of course, to our customers and shareholders for their continued support.

Michael Hart

Michael Hart
President & Chief Executive Officer

Chairman's Message

"The road to further expansion and increased profitability is clearly charted"

The foundation of our consistent growth and positioning is attributable to the commitment and achievements of the management team and all our associates at all levels. On behalf of the Hart Stores Inc. Board of Directors, we wish to express our continued confidence and support to the Hart team in the attainment of these results.

The road to further expansion and increased profitability is clearly charted, leading to tangible benefits for both shareholders and associates alike. Hart Stores Inc. has set a course that will continue to meet the challenges ahead and achieve increasing performance levels.

With a strong balance sheet, qualified associates and a well planned strategy, we are confident that our Company can sustain its growth.

I take this opportunity to sincerely thank each and every staff member of our individual store locations, head office, as well as our vendor partners whose support is crucial to our success. I would also like to thank our shareholders for their continued confidence.

On behalf of the Board of Directors,

Harry Hart

Harry Hart
Executive Chairman

The Team Effort...
Our people – their commitment

Our staff members are the key to our success! Our hard-working associates in every store and our head office team of professionals are focused toward achieving our common goals; enhancing the client experience, increasing traffic through our doors, achieving our sales forecasts, effectively controlling expenses and reaching new levels of shareholder value.

We gratefully acknowledge their contribution and appreciate their efforts resulting in the continuing success of Hart Stores Inc.

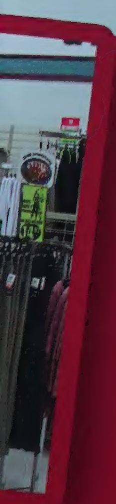

TEL QU'ANNONCE
PANTALONS POUR HOMMES
BAS PRIX!


2-6x
RACING


SYLVANIA


2-6x


VENTE
BAS PRIX!



Product selection, depth and value pricing...

Essential to our success!

- Men
- Ladies
- Boys
- Girls
- Seasonal
- Housewares & Giftware
- Electric Appliances
- Toys
- Electronics
- Infants
- Furniture
- Bed & Bath
- Footwear

Expansion

Turning Opportunities into Profits!

Fiscal 2004 has seen the grand opening of three additional Hart locations.

- St-Nicéphore, Québec
- LaSalle (Montreal), Québec
- Kirkland Lake, Ontario

The Company has established its presence in these communities, with these new stores already making a positive contribution to the Company's bottom line.

In addition, two more stores located in Cowansville and Duvernay (Laval), both in the province of Quebec, were successfully opened in April 2004. Other lease opportunities are presently being negotiated and two more locations are planned for Fall 2004.

Responding to demand...
Our recent additions

Louiseville, Quebec	**Summer 2001**
La Pocatière, Quebec	**Spring 2002**
Sainte-Anne-de-Beaupré, Quebec	**Summer 2002**
Cap-Rouge, Quebec	**Fall 2002**
Saint-Nicéphore, Quebec	**Spring 2003**
LaSalle (Montreal), Quebec	**Spring 2003**
Kirkland Lake, Ontario	**Fall 2003**
Cowansville, Quebec	**Spring 2004**
Duvernay (Laval), Quebec	**Spring 2004**

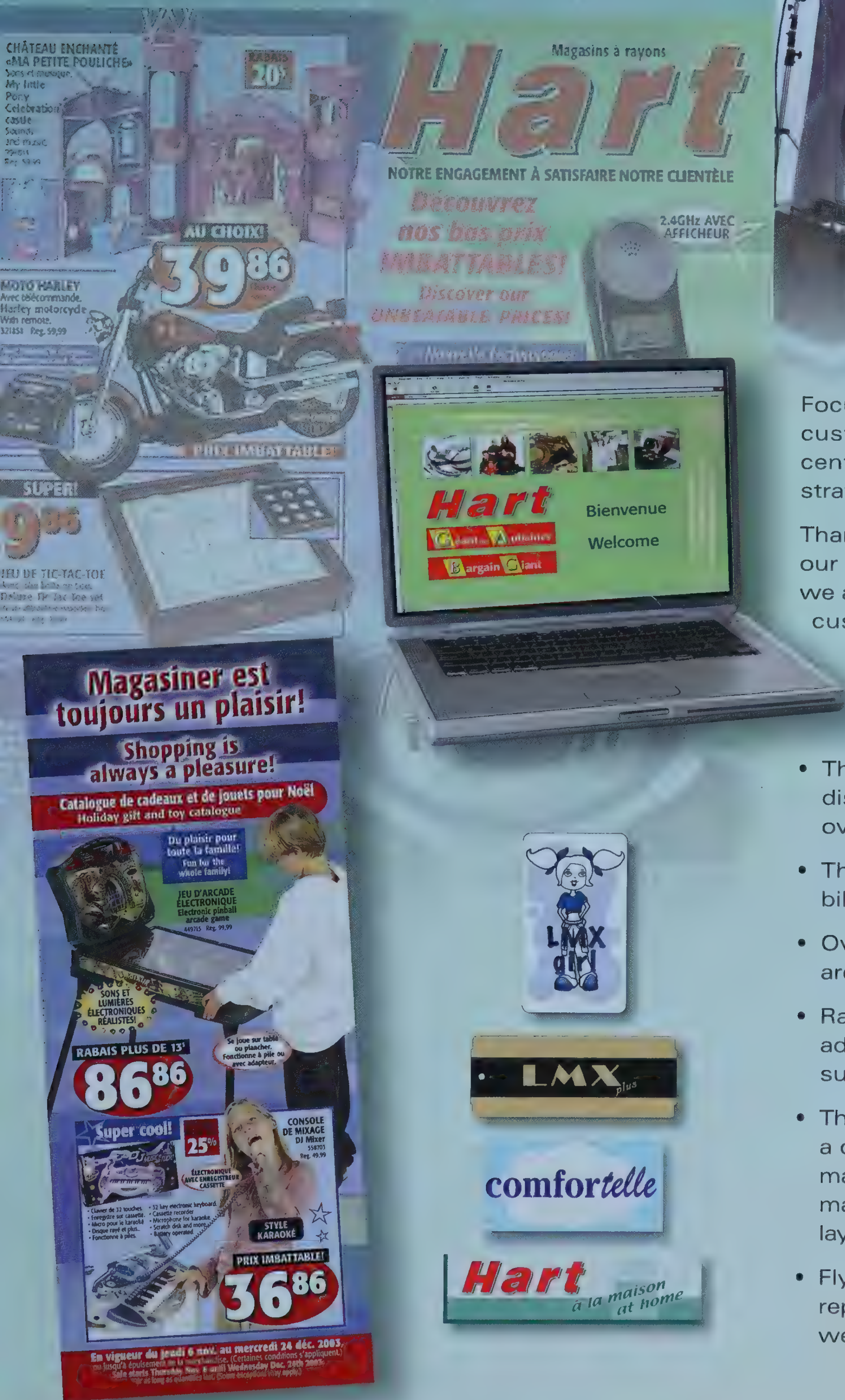
Efficient **Integration**

The Ability to Respond Quickly and Efficiently to the Needs of our Stores.

Our 85,000 sq. ft. office, warehouse and distribution centre is designed to receive and distribute product quickly and efficiently, resulting in well-stocked stores supplied with merchandise arriving at the RIGHT time for seasonal and promotional demand on a constant basis.

A Competitive Advantage

Our Marketing Strategy...



Focusing on the needs of our customers continues to be a central part of our marketing strategy.

Thanks to the depth and scope of our strong advertising program, we are able to effectively reach our customer base and "enhance sales" by driving traffic into our stores consistently and profitably.

- The typical Hart flyer is distributed door-to-door to over 1.5 million households.
- The Company publishes a bilingual flyer 28 times per year.
- Over 40 million circulars are distributed annually.
- Radio and newspaper advertising helps to support local promotions.
- The Company has developed a convenient C.O.D. service in many of the tertiary and rural markets as well as a convenient lay-away service.
- Flyer promotions are also reproduced on the Company website www.hartstores.com.

63 strategic locations **within Canada**

QUEBEC (49 STORES)

Amqui
Baie-Saint-Paul
Buckingham
Cabano
Cap-Rouge
Chandler
Charlesbourg
Châteauguay
Cowansville
Delson
Duvernay (Laval)
Forestville
Gaspé
Granby
Lac-Mégantic
LaSalle (Montreal)
La Pocatière
Louiseville
Maniwaki
Matane
Mont-Joli
Montmagny
Neufchatel
Nicolet
Pincourt
Plessisville
Port-Cartier
Québec (2)
Repentigny
Rimouski
Rouyn-Noranda
Saint-Georges-de-Beauce
Saint-Jérôme
Saint-Nicéphore
Saint-Romuald
Sainte-Anne-de-Beaupré
Sainte-Anne-des-Monts
Sainte-Marie-de-Beauce
Sainte-Marthe-sur-le-Lac
Sept-Îles
Sherbrooke
Terrebonne
Thetford Mines
Trois-Pistoles
Valleyfield
Val-d'Or (2)
Victoriaville

ATLANTIC CANADA (13 STORES)

Bay Roberts, NF-L
Carbonear, NF-L
Grand Falls/Windsor, NF-L
Labrador City, NF-L
Lewisporte, NF-L
Miramichi, NB
Port-aux-Basques, NF-L
Port Hawkesbury, NS
Saint-Basile, NB
Shelburne, NS
Stephenville, NF-L
Sussex, NB
Yarmouth, NS

ONTARIO (1 STORE)

Kirkland Lake


Quebec
Newfoundland
Nova Scotia
New Brunswick

Management's **Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the financial statements and notes to the financial statements for the year ended January 31, 2004 of Hart Stores Inc. ("the Company"). This MD&A is current as of April 8, 2004. Additional information relating to the Company, including the Company's annual information form, is available on-line at www.sedar.com.

Corporate Overview

Hart Stores Inc. operates a network of 63 mid-sized department stores under the Hart, Bargain Giant and Géant des Aubaines banners located in secondary and tertiary markets throughout Eastern Canada where it has established a dominant position in many of the communities it serves. The stores offer an extensive and differentiated selection of national and exclusive fashion apparel brands as well as family footwear, home furnishings, giftware, toys and seasonal goods. The average store size is 23,000 square feet, ranging from the smallest at 15,000 square feet and the largest at 35,000 square feet.

Overall Performance

Highlights for the fiscal year ended January 31, 2004 are as follows:

- Sales increased by 7.7% to $127.8 million.
- Same-store sales increased by 1.2%.
- Three new stores were opened in fiscal 2004.
- Net earnings increased by 20.3% to $5.5 million or 4.3% of sales compared to 3.9% of sales in fiscal 2003.
- Net earnings, in the final quarter of the year, marked the 17th consecutive quarter of improvement over the comparable quarter.
- Return on shareholders' equity before taxes were 24.7% in fiscal 2004 compared to 24.3% in fiscal 2003.

Selected Annual Information

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles and reports in Canadian dollars.

(in thousands of dollars, except per share amounts)

	2004 $	2003 $	2002 $
OPERATIONS			
Revenues	127,829	118,689	111,489
Cash flow from operations	5,415	5,705	5,838
Operating income (1)	9,609	8,316	7,123
Net earnings	5,539	4,606	3,260
Operating income % to Revenues	7.5%	7.0%	6.4%
Net earnings % to Revenues	4.3%	3.9%	2.9%
FINANCIAL STRUCTURE			
Total assets	45,601	41,628	37,058
Working capital	30,149	25,383	20,536
Net funded debt	-	-	3,044
Shareholder's equity	34,255	29,275	24,623
PER SHARE AMOUNTS			
Earnings per share	0.42	0.35	0.25
Diluted earnings per share	0.41	0.34	0.25
Cash Dividends	0.05	-	-
Book value per share	2.60	2.23	1.90
Weighted average number of shares	13,167,597	13,099,843	12,983,411

(1) Earnings before interest, depreciation, amortization and income taxes.

Results of Operations

Revenues: Revenues increased by 7.7% in fiscal 2004 over fiscal 2003, reaching record levels, primarily due to an increase in same-store sales of 1.2% and the addition of three new stores.

Of the three new stores opened, two were in the province of Quebec in the town of Saint-Nicéphore and in LaSalle, a borough of Montreal. The third store was in the province of Ontario in the town of Kirkland Lake. During the year, one store was renovated in Quebec City. The increase in same-store sales was a continuation of the positive trend the Company had attained in the previous years and was mainly the result of an expanded product selection.

Net Earnings: Net earnings increased by 20.3% in fiscal 2004 over fiscal 2003, reaching record levels, resulting in earnings per share of $0.42 compared to $0.35 per share in the previous year.

The Company attributes the improvements to the following factors: improved merchandise buying opportunities, strong promotional events, increased sales levels resulting from new store openings, positive same-store sales increases and lower interest expenses.

Balance Sheet: The Company strengthened its balance sheet in fiscal 2004 as the company had no borrowings and increased its working capital by $4.8 million. The current ratio at the end of the year stood at 3.7:1 compared to 3.1:1 in the previous year. Capital expenditures amounted to $1.2 million compared to $0.8 million in the previous year.

Shareholders' equity increased by 17.0% or $5.0 million. The book value amounted to $2.60 per share compared to $2.23 per share in the previous year. Return on shareholders' equity was 24.7% before taxes compared to a 24.3% return in the previous year.

These improvements were due largely to increased earnings as well as the better management of assets employed.

Quarterly Information:
(in thousands of dollars except per share amounts)

Revenues:

	2004 $	2004 Variance	2003 $	2003 Variance
Quarter 1	21,454	5.5%	20,345	5.2%
Quarter 2	31,368	10.4%	28,424	11.8%
Quarter 3	33,467	4.3%	32,093	9.8%
Quarter 4	41,540	9.8%	37,827	0.9%
Year	**127,829**	**7.7%**	**118,689**	**6.5%**

Net earnings (loss):

	2004 $	2004 Variance	2003 $	2003 Variance
Quarter 1	(404)	4.5%	(423)	49.5%
Quarter 2	1,055	13.6%	929	54.3%
Quarter 3	1,195	12.5%	1,062	40.1%
Quarter 4	3,693	21.6%	3,038	11.0%
Year	**5,539**	**20.3%**	**4,606**	**41.3%**

Earnings (loss) per share:

	2004	2003
Quarter 1	$(0.03)	$(0.03)
Quarter 2	0.08	0.07
Quarter 3	0.09	0.08
Quarter 4	0.28	0.23
Year	**$0.42**	**$0.35**

Diluted earnings (loss) per share:

	2004	2003
Quarter 1	$(0.03)	$(0.03)
Quarter 2	0.08	0.07
Quarter 3	0.09	0.08
Quarter 4	0.27	0.22
Year	**$0.41**	**$0.34**

Management's Discussion and Analysis

Fourth Quarter

Revenues for the fourth quarter ended January 31, 2004, reached $41.5 million representing a 9.8% increase in total or 3.6% on a same-store sales basis. Net earnings for the fourth quarter increased 21.6% reaching $3.7 million or $0.28 per share compared to $3.0 million or $0.23 per share in the previous year. The Company attributes the improvements in the fourth quarter largely to a positive trend in same-store sales as the result of a strong Christmas selling season.

Liquidity & Capital Resources

At January 31, 2004, the Company held $5.4 million in cash and short-term investments compared to $2.9 million in the previous year.

The Company's primary financial resources have been from operations and from time to time borrowings under the revolving credit agreement with Congress Financial Corporation. During the year the Company extended its credit agreement with Congress Financial Corporation for an additional three-year term. Under the terms of the amended agreement the credit facility available increased to $25 million. The terms and conditions of the amended agreement give the Company increased flexibility and bears interest at bank prime rate. At January 31, 2004 none of the available credit facility with Congress Financial Corporation was utilized. The Company does not foresee circumstances that would require reaching the maximum provided under this facility.

The principal uses have been to finance inventory requirements, capital expenditures for store openings and renovations as well as other working capital requirements.

Contractual Obligations

As at January 31, 2004, the minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible, are as follows:

	$
2005	6,572
2006 to 2007	8,513
2008 to 2009	5,252
Thereafter	5,834
	26,171

Certain of the lease agreements provide for additional annual rentals based on sales. The Company believes that it has adequate financial resources to meet its contractual obligations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Transactions with Related Parties

H & N Family Subco Inc. is the beneficial holder of the majority of the outstanding common shares of the Company, holding approximately 56.7% of the common shares of the Company. In the ordinary course of business the Company purchases goods and services from companies that are also controlled by H & N Family Subco Inc., these transactions have been recorded at fair market value. Additional details can be found in the notes to the financial statements.

Critical Accounting Estimates

The preparation of the financial statements requires the Company to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Inherent critical estimates that the Company has recorded include the valuation of merchandise inventory. The Company records a provision to reflect management's best estimate of the net realizable value of its merchandise inventory.

Changes in Accounting Policies and Initial Adoptions

During the year ended January 31, 2004 the Company early adopted the fair value method to measure compensation cost relating to its stock option plan. This change was applied prospectively for options granted after February 2, 2003. In accordance with the new standard the Company recorded a compensation expense in fiscal 2004 of $53,000 relating to stock option grants.

Share Capital and Dividends

At January 31, 2004 there were 13,249,296 common shares issued and outstanding. During the year the Company declared and paid cash dividend distributions of 5 cents per share, or $658,000 to shareholders of record on June 20th, 2003.

Risk & Uncertainties

The Company is exposed to various external risk factors and uncertainties that may affect the performance of the Company. Management has the responsibility of mitigating these risks to the extent possible.

The primary financial risk factors to which the Company is exposed to are related to fluctuations in interest rate levels and foreign currency fluctuations. These risks have been reduced as a result of lower borrowing levels and marginal volume of foreign transactions in relation to the Company's total volume. Interest payable under the terms of revolving credit facility is based on a variable rate, as such the Company is exposed to interest rate fluctuations.

The Company is also exposed to the following external risk factors: the economic climate, consumer confidence levels, weather dependency and competition. The Company cannot control these risks, but it has taken certain actions to mitigate them.

Subsequent Events

Subsequent to the fiscal year ending January 31, 2004 the Company closed its store in Saint-Hyacinthe, Quebec as the market analysis showed that the surrounding communities would be served by recently opened newer locations. The Company also opened two new stores in the Province of Quebec. The new stores are located in the town of Cowansville and in Duvernay (Laval). This brings the total store retail network to 63 locations.

Financial **Statements**

Management's Responsibility for the Financial Statements

The management of Hart Stores Inc. is responsible for the integrity of the accompanying financial statements and all other information in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on best estimates and informed judgements. All financial information in the annual report is consistent with that contained in the financial statements.

Hart Stores Inc. maintains effective systems of internal accounting and administrative controls consistent with reasonable cost. Existing systems are designed to provide reasonable assurance and reliability and that the Company assets are adequately accounted for and safeguarded. The Audit Committee, which is comprised of three outside directors, meets with representatives of the Company's auditors, and with members of management to satisfy itself that policy is being followed.

The financial statements have been reviewed by the Audit Committee and together with the other required information in this annual report, have been approved by the Board of Directors. The Company's auditors, Deloitte & Touche LLP, chartered accountants, have examined these financial statements and their report follows.

Michael Hart

Michael Hart
President & Chief Executive Officer

Robert Farah
Vice President,
Secretary & Chief Financial Officer

Auditors' Report
To the Shareholders of Hart Stores Inc.

We have audited the balance sheets of Hart Stores Inc. as at January 31, 2004 and February 1, 2003 and the statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2004 and February 1, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Montréal (Québec)
March 12, 2004

Statements of earnings

for the years ended January 31, 2004 and February 1, 2003
(in thousands of dollars, except per share amounts)

	2004 **$**	2003 $
Sales	**127,829**	118,689
Cost of sales and expenses excluding the undernoted items	**118,220**	110,373
Earnings before the undernoted items	**9,609**	8,316
Interest	**148**	280
Depreciation and amortization	**1,002**	930
	1,150	1,210
Earnings before income taxes	**8,459**	7,106
Income taxes (Note 7)	**2,920**	2,500
Net earnings	**5,539**	4,606
Net earnings per share (Note 5)		
Basic	**0.42**	0.35
Diluted	**0.41**	0.34

Statements of retained earnings

for the years ended January 31, 2004 and February 1, 2003
(in thousands of dollars)

	2004 **$**	2003 $
Balance - beginning of year	**4,891**	285
Net earnings	**5,539**	4,606
	10,430	4,891
Dividends	**(658)**	-
Balance - end of year	**9,772**	4,891

Balance sheets

as at January 31, 2004 and February 1, 2003
(in thousands of dollars)

	2004 $	2003 $
Assets		
Current assets		
Cash	**5,355**	2,889
Accounts receivable	**-**	2,663
Inventory	**35,790**	31,989
Prepaid expenses	**350**	195
	41,495	37,736
Property, plant and equipment (Note 2)	**3,898**	3,629
Other assets (Note 3)	**77**	154
Future income taxes (Note 7)	**131**	109
	45,601	41,628
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**9,750**	9,346
Account payable - common controlled entity	**-**	45
Income taxes	**1,596**	1,753
Future income taxes (Note 7)	**-**	1,209
	11,346	12,353
Commitments and contingent liabilities (Notes 8 and 9)		
Shareholders' equity		
Capital stock (Note 5)	**24,430**	24,384
Contributed surplus (Note 5)	**53**	-
Retained earnings	**9,772**	4,891
	34,255	29,275
	45,601	41,628

On behalf of the Board

Harry Hart

Harry Hart

Gérard Limoges

Gérard A. Limoges

Statements of cash flows

for the years ended January 31, 2004 and February 1, 2003
(in thousands of dollars)

	2004 $	2003 $
Cash flows provided by (used in):		
Operating activities		
Net earnings	**5,539**	4,606
Adjustments for:		
Depreciation and amortization	**1,002**	930
Amortization of deferred financial costs	**52**	112
Compensation expense relating to stock options	**53**	-
Future income taxes	**(1,231)**	57
	5,415	5,705
Changes in non-cash working capital items (Note 6)	**(1,091)**	1,588
	4,324	7,293
Financing activities		
Changes in indebtedness under revolving credit facility	-	(3,044)
Dividends paid	**(658)**	-
Employee share options exercised	**46**	46
	(612)	(2,998)
Investing activities		
Acquisitions of property, plant and equipment	**(1,246)**	(781)
Net increase in cash	**2,466**	3,514
Cash (bank overdraft) beginning of year	**2,889**	(625)
Cash end of year	**5,355**	2,889
Additional cash flow information		
Interest paid	**103**	145
Income taxes paid	**4,494**	1,243

(in thousands of dollars, for tabular figures only)

1. Accounting policies

Financial period

The Company's year-end is the Saturday closest to January 31.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the retail method.

Property, plant and equipment

Property, plant and equipment are recorded at original cost and are depreciated as follows:

Furniture and equipment	20% diminishing balance
Computer equipment	20% straight-line
Rolling stock	30% diminishing balance

Leasehold improvements are amortized on the straight-line basis over the lesser of their estimated useful lives and the terms of the leases plus first renewal options.

Other assets

Deferred financial costs are amortized using the straight-line method over three years.

Software represents software used by the Company. It is recorded at original cost and is amortized using the straight-line method at a rate of 20%.

Foreign currency translation

Monetary assets and liabilities resulting from foreign currency transactions are translated into Canadian dollars using the year-end exchange rate. Expenses are translated at the exchange rate on the day of the transaction. Gains and losses on translation are included in the statement of earnings.

Revenue recognition

Revenues are recognized at the time of sale to the customer.

Store opening expenses

Store opening costs are expensed as incurred.

Future income taxes

Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using current tax rates or substantively enacted tax rates as an estimate of these, which will be in effect when the differences are expected to reverse.

Earnings per share

The Company uses the treasury stock method for determining the dilutive effect of options issued and other similar instruments. Reconciliation of the numerators and denominators used in the calculation of basic and diluted earnings per share is presented in note 5 c).

Employee stock option plan

The Company has a stock-based compensation plan where options to purchase common shares are issued to directors, officers and employees.

Effective February 3, 2002, the Company adopted the new recommendations of the CICA Handbook Section 3870 with respect to "Stock-Based Compensation and other Stock-Based Payments". This section requires that direct awards of stock and liabilities based on the price of common stock be measured at fair value in the financial statements. In addition, effective February 1, 2004, the Section requires the use of the fair value method to measure all other types of stock-based compensation plans to employees. This section applies to awards granted by the Company on or after February 3, 2002. The Company's plan does not qualify as direct awards of stock or as a plan that creates liabilities based on the price of the Company's stock.

During the year ended January 31, 2004 the Company early adopted the fair value method to measure compensation cost relating to its stock option plan. This change was applied prospectively for options granted after February 2, 2003. The counterpart is recorded as contributed surplus. Any consideration paid by employees on the exercise of options is credited to capital stock.

Segmented information

Management has determined that the Company operates in one industry and geographic segment. Specifically, the Company operates in the mid-sized junior department store industry and in the geographic region of Eastern Canada.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Disclosure of guarantees

In February 2003, the CICA issued Accounting Guideline 14, Disclosure of Guarantees ("AcG 14"). AcG 14 requires that a guarantor disclose significant information about certain types of guarantees. Disclosures include the nature of the guarantee, the approximate term of the guarantee, how the guarantee arose, the events of circumstances that would require the guarantor to perform under the guarantee, the maximum potential future payments under the guarantee, the carrying amount of the related liability, and information about recourse or collateral. There was no additional disclosure resulting from the application of this guideline.

2. Property, plant and equipment

	2004			2003		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	$	$	$	$	$	$
Leasehold improvements	**5,061**	**4,445**	**616**	4,731	4,220	511
Furniture and equipment	**16,381**	**13,214**	**3,167**	15,536	12,504	3,032
Computer equipment	**812**	**699**	**113**	754	670	84
Rolling stock	**44**	**42**	**2**	44	42	2
	22,298	**18,400**	**3,898**	21,065	17,436	3,629

3. Other assets

	2004			2003		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	$	$	$	$	$	$
Software	**241**	**164**	**77**	241	139	102
Deferred financial costs	**337**	**337**	**-**	337	285	52
	578	**501**	**77**	578	424	154

4. Indebtedness under revolving credit facility

The Company has a $25 million credit facility with Congress Financial Corporation renewable on February 28,2006. Under the terms of the agreement, the interest payable is at prime interest. The facility is secured by a general security agreement against all assets of the Company. As at January 31, 2004, the Company is in compliance with all covenants.

5. Capital stock

a) Authorized

An unlimited number of:

- Class A preferred shares issuable in series
- Class B preferred shares issuable in series
- Common shares

		2004	2003
		$	$
Issued			
13,249,296	Common shares (13,130,930 in 2003)	**24,430**	24,384

During the year, 118,366 (2003 - 138,427) options were exercised for a cash consideration of $46,000 (2003 - $46,000).

b) Employee stock option plan

The Company has a stock option plan for directors, officers and employees which provides for the purchase of common shares up to a maximum number of 1,700,000 issuable shares. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. The rights relating to the options are vested over five years at a rate of 20% per year.

The weighted average fair value of each option granted is estimated at $0.96 in 2004 using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield of 2 %; excepted volatility of 56.6 %; risk-free interest rates of 5.34 %; and expected lives of ten years. For the twelve-month period ended January 31, 2004, the Company awarded 153,000 stock options at a price of $1.70 and a compensation expense in the amount of $53,000 has been recorded, with the counterpart credited to contributed surplus.

A summary of the status of the Company's stock option plans as of January 31, 2004 and February 1, 2003, and changes during the years ending on those dates is presented below:

	2004		2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
		$		$
Outstanding, beginning of year	**669,566**	**0.45**	809,976	0.44
Granted	**153,000**	**1.70**	-	-
Exercised	**(118,366)**	**0.39**	(138,427)	0.33
Cancelled	**(75,800)**	**0.53**	-	-
Expired	**-**	**-**	(1,983)	0.30
Outstanding, end of year	**628,400**	**0.76**	669,566	0.45
Exercisable, end of year	**319,600**	**0.56**	297,772	0.43

5. Capital stock (continued)

The following tables summarize information about the stock options at January 31, 2004 and February 1, 2003, respectively:

	2004				
	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at January 31	Weighted remaining contractual life	Weighted average exercise price	Number exercisable at January 31	Weighted average exercise price
$			$		$
0.30 to 0.31	**283,200**	**6.5 years**	**0.31**	**187,200**	**0.31**
0.68	**192,200**	**7.4 years**	**0.68**	**101,800**	**0.68**
1.70	**153,000**	**9.2 years**	**1.70**	**30,600**	**1.70**
	628,400	**7.4 years**	**0.76**	**319,600**	**0.56**

	2003				
	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at February 1	Weighted remaining contractual life	Weighted average exercise price	Number exercisable at February 1	Weighted average exercise price
$			$		$
0.30 to 0.31	405,966	7.5 years	0.31	199,172	0.31
0.68	263,600	8.4 years	0.68	98,600	0.68
	669,566	7.8 years	0.45	297,772	0.43

An additional 766,268 common shares are reserved for the granting of options at prices not less than the market value of the shares at that time.

c) Earnings per share calculation

	2004	2003
	$	$
Net earnings - basic and diluted	**5,539**	4,606
Weighted average number of common shares outstanding	**13,167,597**	13,099,843
Effect of dilutive stock options	**488,691**	501,241
Weighted average number of diluted common shares outstanding	**13,656,288**	13,601,084

All options outstanding were included in the calculation of diluted earnings per share.

6. Changes in non-cash working capital items

	2004	2003
	$	$
Accounts receivable	**2,663**	(272)
Inventory	**(3,801)**	(2,641)
Prepaid expenses	**(155)**	1,037
Accounts payable and accrued liabilities	**404**	2,000
Account payable - common controlled entity	**(45)**	45
Income taxes	**(157)**	1,419
	(1,091)	1,588

7. Income taxes

Income taxes included in the statements of earnings differ from the statutory tax rate as follows:

	2004	2003
	$	$
Earnings before income taxes	**8,459**	7,106
Statutory income tax rate	**33.86%**	35.97%
Income taxes based on statutory income tax rate	**2,864**	2,556
Non-deductible expenses and other adjustments	**56**	(56)
Income taxes	**2,920**	2,500

7. Income taxes (continued)

The provision for income taxes is as follows:

	2004	2003
	$	$
Current	**4,151**	2,443
Future	**(1,231)**	57
	2,920	2,500

The overall tax effect of temporary differences that give rise to the Company's future tax is as follows:

	2004		2003	
	Short-term	Long-term	Short-term	Long-term
	$	$	$	$
Future income tax asset:				
Property, plant and equipment	**-**	**131**	-	109
Future income tax liability:				
Accounts receivable	**-**	**-**	1,209	-

8. Commitments

As at January 31, 2004, the minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the Company is responsible, are as follows:

	$
2005	**6,572**
2006	**5,120**
2007	**3,393**
2008	**2,937**
2009	**2,315**
Thereafter	**5,834**
	26,171

Certain of the lease agreements provide for additional annual rentals based on sales.

9. Contingent liabilities

The Company is party to claims and lawsuits in the normal course of business. Management believes that the resolution of these claims and lawsuits will not have a material adverse effect on the Company's financial condition, earnings or cash flows.

10. Related party transactions

Transactions with related parties occurred within the normal course of business and have been measured at their exchange amount. These transactions were as follows:

	2004	2003
	$	$
Purchases - common controlled entity	**24**	19
Net rent expense - common controlled entity	**229**	210
Administration fees - common controlled entity	**98**	98
Acquisitions of property, plant and equipment - common controlled entity	**64**	-

11. Financial instruments

Risk management
The Company is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates, and the degree of volatility of these rates.

Fair values
Fair values of financial assets and liabilities approximate amounts at which these items could be exchanged in a transaction between knowledgeable and willing parties. Fair value is based on available public market information or, when such information is not available, is estimated using present value techniques and assumptions concerning the amount and timing of future cash flows and discount rates which factor in the appropriate level of risk for the instrument. The estimated fair values may differ in amount from that which could be realized in an immediate settlement of the instruments.

At January 31, 2004 and February 1, 2003, the fair value of all financial instruments approximates their carrying value.

Corporate Information

Directors

Harry Hart,
Executive Chairman
Hart Stores Inc.

Michael Hart,
President & Chief Executive Officer
Hart Stores Inc.

Stephen Hart,
Lawyer
Hart, Saint-Pierre

Gérard A. Limoges,
Director

Brian Smith,
Leasing Executive
Oberfeld Snowcap Inc.

Officers & Management

Michael Hart,
President & Chief Executive Officer

Robert Farah,
Vice President, Secretary &
Chief Financial Officer

Michel Lussier,
Director Store Operations

Howard Michaels,
Vice President Merchandising

Salvatore Pugliese,
Director Information Technology

Head Office

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Listing of Stock

Toronto Stock Exchange

Symbol

HIS

Dividends

A cash dividend of $0.05 per share was paid during fiscal 2004.

Registrar and Transfer Agent

Computershare Investor Services Inc.

Auditors

Deloitte & Touche LLP

Principal Financial Institutions

Congress Financial Corporation (Canada)
TD Canada Trust

Annual Meeting

The Annual General Meeting of Shareholders will be held on June 15, 2004, at 10:30 am at Ruby Foo's Hotel, 7655 Decarie Blvd. Montreal, Quebec.

Further Information

Investors requiring further information concerning Hart Stores Inc. should refer to the corporation's web site at the following address: www.hartstores.com or send an e-mail to rfarah@hartstores.com

Magasins Hart Stores Inc.

www.hartstores.com